You should read the following discussion and analysis in conjunction with our consolidated financial information set forth in the Accountants' Report attached as Appendix I to this Prospectus and the notes thereto. The financial information has been prepared in accordance with IFRS.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements."

OVERVIEW

We are an iron ore mining and processing company based in Hebei Province, China. We currently own and operate four iron ore mines in Hebei Province with convenient and swift connectivity to customers. During the Track Record Period, we generated revenue primarily through sales of iron ore products, including iron ore concentrates, preliminary concentrates and iron ores.

In 2010, 2011, 2012 and the six months ended June 30, 2013, our revenue amounted to RMB364.6 million, RMB773.1 million, RMB581.6 million and RMB667.1 million, respectively, and our profit and total comprehensive income amounted to RMB86.9 million, RMB222.0 million, RMB54.8 million and RMB250.2 million, respectively. Our historical results are not necessarily indicative of our performance in any future period.

During the Track Record Period, we processed iron ores and weakly mineralized wall rocks recovered from Gufen Mine, Wang'ergou Mine and Shuanmazhuang Mine into iron ore concentrates for sales. In addition, we primarily sold iron ores and preliminary concentrates recovered from Zhijiazhuang Mine as Jiheng Mining did not have wet processing capacity during the Track Record Period. Since March 2013, however, Jiheng Mining has utilized Xinxin Mining's wet processing facilities to process a portion of its preliminary concentrates into iron ore concentrates. As a result, Jiheng Mining has been selling iron ore concentrates since April 2013. In line with our production expansion plan, we intend to steadily increase our mining and processing capacity at all of our mines in order to increase output of iron ore concentrates. As a result, we expect revenue generated from sales of iron ore concentrates to increase both in terms of the absolute amount and as a percentage of our total revenue in the future.

From 2010 to 2012, we mainly focused on conducting consolidation and correction works in connection with the consolidation of our mines and preparing them for commercial production. The iron ores removed and recovered during these works were low in both volume and TFe grade as compared to those of iron ores produced during our trial or commercial production. In addition, we also used weakly mineralized wall rocks recovered during the course of these works to produce a significant portion of our iron ore concentrates. As a result, the average unit cash operating costs of our iron ores and iron ore concentrates during these periods were high as compared to those during our trial or commercial production. See "– Cash Operating Costs" and "Business – Mines, Mineral Resources and Mining Rights – Consolidation and Correction Work at Our Mines."

BASIS OF PREPARATION

Our Company was incorporated in the BVI on January 14, 2011 and re-domiciled to the Cayman Islands on May 23, 2013 as an exempted company with limited liability under the Cayman Companies Law. See "History, Development and Reorganization." Our consolidated financial information as of and for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013 have been prepared using the principles of merger accounting as if the companies now comprising our Group had been consolidated at the beginning of the Track Record Period unless the company was incorporated or established at a later date. The net assets of the companies now comprising our Group are consolidated using the existing book value from the Controlling Shareholders' perspective.

Our financial information has been prepared in accordance with IFRS throughout the Track Record Period.

FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL POSITION

Our financial position and results of operations have been and will continue to be affected by a number of factors, including those set forth in the "Risk Factors" and the following factors, some of which may not be within our control and/or may not be indicative of future results of operations.

Product Mix

During the Track Record Period, we processed iron ores and weakly mineralized wall rocks recovered from Gufen Mine, Wang'ergou Mine and Shuanmazhuang Mine into iron ore concentrates for sales. In addition, we primarily sold iron ores and preliminary concentrates recovered from Zhijiazhuang Mine during the Track Record Period. Starting from April 2013, Jiheng Mining has commenced to sell iron ore concentrates. In 2010, 2011, 2012 and the six months ended June 30, 2013, revenue generated by Jiheng Mining from sales of preliminary concentrates and iron ores recovered from Zhijiazhuang Mine accounted for nil, 49.1%, 45.6% and 56.5% of our total revenue for the same periods. We intend to steadily increase our mining and processing capacity at all of our mines in order to increase output of iron ore concentrates. As a result, we expect revenue generated from sales of iron ore concentrates to increase both in terms of the absolute amount and as a percentage of our total revenue in the future.

Selling Prices

A number of factors affect market prices of iron ore products in the PRC, including but not limited to the global and the PRC supply of and demand for iron ore products as well as other macro-economic factors such as interest rates, expectations regarding inflation and currency exchange rates. In particular, prices of iron ore products in the PRC are affected by prices of imported iron ores, especially those on a spot basis. In order to keep our transportation costs low and maintain the stable demand for our products, we primarily sold our iron ore concentrates to local steel mills, and preliminary concentrates and iron ores to local processing plants and trading companies in Hebei Province. The prices of our iron ore products are directly affected by market prices in this region.

We price our iron ore products based on prevailing market prices and the quality of our products. The following table sets forth our average selling price per tonne of iron ore products for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
			(RMB/t)		
Average selling price[1]					
Iron ore concentrates	966	1,062	847	859	806
Preliminary concentrates. .	–	262	195	225	202
Iron ores	–	214	190	219	193

Note:

(1) Average selling price equals (i) the revenue generated from sales of relevant iron ore products for a selected period divided by (ii) sales volume of such iron ore products for the same period, net of VAT at a rate of 17%.

The following table illustrates the sensitivity of our revenue in 2010, 2011, 2012 and the six months ended June 30, 2013 to the average selling prices of our iron ore concentrates, preliminary concentrates and iron ores, respectively.

	Change in average selling price per tonne					
	Decreased by			Increased by		
	30.0%	20.0%	10.0%	10.0%	20.0%	30.0%
			(RMB in millions)			
Impact on revenue in 2010						
Iron ore concentrates	(109)	(73)	(36)	36	73	109
Preliminary concentrates[1]	–	–	–	–	–	–
Iron ores[1]	–	–	–	–	–	–
Impact on revenue in 2011						
Iron ore concentrates	(118)	(79)	(39)	39	79	118
Preliminary concentrates	(16)	(11)	(5)	5	11	16
Iron ores	(98)	(65)	(33)	33	65	98
Impact on revenue in 2012						
Iron ore concentrates	(95)	(63)	(32)	32	63	95
Preliminary concentrates	(21)	(14)	(7)	7	14	21
Iron ores	(58)	(39)	(19)	19	39	58
Impact on revenue in the six months ended June 30, 2013						
Iron ore concentrates	(87)	(58)	(29)	29	58	87
Preliminary concentrates	(24)	(16)	(8)	8	16	24
Iron ores	(89)	(59)	(30)	30	59	89

Note:

(1) There was no sales of preliminary concentrates or iron ores in 2010.

The sensitivity range of a decrease or increase of 30% has been determined with reference to historical movements in the price of our iron ore products. The largest year-over-year decrease in the average selling price during the Track Record Period was 20%, 26% and 11% for iron ore concentrates, preliminary concentrates and iron ore, respectively. Assuming no changes in other variables and after converting the sales volume and unit cost of iron ore and preliminary concentrate into the sales volume and unit cost of iron ore concentrate equivalent, our profit before tax would have reached breakeven point if the average selling price of our iron ore concentrates had been lower than the realized averaged selling price by approximately 59.9% in the first six months of 2013. This analysis further assumes that the conversion of relevant data of iron ore and preliminary concentrate into those of iron ore concentrate was based on the appropriate TFe grade, ore to concentrate ratio and preliminary concentrate to concentrate ratio at our Zhijiazhuang Mine.

We believe that the prices of our products will continue to be affected by the condition of the PRC economy and the global economy, and operating at a low cash operating cost is critical to weathering any selling price fluctuations. As a result of our substantially reduced cash operating cost, our revenue and profitability improved significantly during the first half of 2013 despite a weak iron ore market in the same period in China. To mitigate against the potential further weakening of the selling prices of our iron ore products, we will continue our ramp-up plan to lower the unit cash operating cost as projected through (i) upgrading our technical capabilities, (ii) improving our economies of scale by expanding mining and processing capacities, and (iii) optimizing management and operation. In addition, we plan to, without undermining our liquidity, offer competitive credit terms to attract more state-owned steel mill customers who are generally more willing to pay higher prices. In the long term, we also plan to further improve our economies of scale by acquiring high quality mines.

Production Volume and Sales Volume of Our Iron Ore Products

Our revenue relies on the production volume of our iron ore products, which is constrained by the capacity of the relevant stages of our manufacturing process and affected by the market demand for the relevant products. Sales volumes of our iron ore products are affected primarily by the production and processing capacity of the relevant products, and may also include products from our inventory. We have at times managed the timing of sales and the sales volumes of our iron ore products, taking into consideration the inventory levels of our products, our processing capacity, expansion plan and anticipated market demand for our products. Assuming no changes in other variables and after converting the sales volume and unit cost of iron ore and preliminary concentrate into the sales volume and unit cost of iron ore concentrate equivalent, our profit before tax would have reached breakeven point if the sales volume of iron ore concentrate equivalent had been lower than the realized sales volume of iron ore concentrate equivalent by approximately 84.5% in the first six months of 2013. This analysis further assumes that the conversion of relevant data of iron ore and preliminary concentrate into those of iron ore concentrate was based on the appropriate TFe grade, ore to concentrate ratio and preliminary concentrate to concentrate ratio at our Zhijiazhuang Mine.

The following table sets forth our output and sales volume of our iron ore products for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
			(Kt)		
Output					
Iron ore concentrates	421	443	393	129	345
Preliminary concentrates[(1)]	2,024	2,332	2,194	820	2,007
Iron ores[(2)]	3,419	4,609	3,804	1,307	5,655
Sales volume					
Iron ore concentrates	377	370	372	140	360
Preliminary concentrates	–	201	366	177	403
Iron ores	–	1,526	1,019	267	1,528

Notes:

(1) Jiheng Mining produced 19 Kt, 188 Kt, 360 Kt, 186 Kt and 601 Kt of preliminary concentrates in 2010, 2011, 2012 and the six months ended June 30, 2012 and 2013, respectively.

(2) Jiheng Mining recovered 145 Kt, 1,350 Kt, 973 Kt, 317 Kt and 1,591 Kt of iron ores in 2010, 2011, 2012 and the six months ended June 30, 2012 and 2013, respectively.

During the Track Record Period, our output increased along with our business expansion, mainly through acquisition of relevant iron ore mines. See "History, Development and Reorganization." Our output of iron ore products during the Track Record Period was negatively affected because we focused on performing consolidation and correction work in connection with consolidation of our mines and preparing them for commercial production. See "Business – Mines, Mineral Resources and Mining Rights – Consolidation and Correction Work at Our Mines."

In line with our expansion plan, we intend to develop our processing capacity to match our mining capacity so that we could increase the production and sales volumes of iron ore concentrates. See "Business – Our Business Strategies" and "Business – Production Expansion Plans."

Operating Costs

Our operating costs mainly include costs associated with work force employment, utilities, transportation, and mining and processing operations. Variations in output and the costs of mining, transporting and processing iron ore products are key factors that affect our operating costs.

Both the volume and the average TFe grade of iron ores removed and recovered during our consolidation and correction work were low compared with those of iron ores produced during our trial or commercial production. As a result, the unit cash operating costs of our products of iron ores and iron ore concentrates from 2010 to 2012 were high compared to those during trial or commercial production. See "– Cash Operating Costs" and "Business – Mines, Mineral Resources and Mining Rights – Consolidation and Correction Work at Our Mines."

SRK is of the view that with the on-going technological upgrade and the expected increase in our production volume and the TFe grade of our iron ores, our unit cash operating costs after the commencement of the trial or commercial production should decrease substantially as compared with the unit cash operating costs in 2010, 2011 and 2012. We intend to increase our mining and processing capacity and carry out technical upgrade at our mines to focus on iron ore concentrates production. We expect to complete our expansion work by the end of 2015. As a result of the expected increase in average grade of iron ores to be produced, changes in product mix and utilization of new technology and equipment upon completion of technical upgrade, our historical record of unit cash operating costs of iron ore products are not indicative of future performance.

The following table illustrates the sensitivity of our gross profit in 2010, 2011, 2012 and the six months ended June 30, 2013 to the average cost of sales, on a per tonne basis, of our iron ore concentrates, preliminary concentrates and iron ores, respectively.

	Change in cost of sales per tonne					
	Decrease by			Increase by		
	30.0%	20.0%	10.0%	10.0%	20.0%	30.0%
	(RMB in millions)					
Impact on gross profit in 2010						
Iron ore concentrates	58	38	19	(19)	(38)	(58)
Preliminary concentrates[(1)]	–	–	–	–	–	–
Iron ores[(1)]	–	–	–	–	–	–
Impact on gross profit in 2011						
Iron ore concentrates	69	46	23	(23)	(46)	(69)
Preliminary concentrates	11	7	4	(4)	(7)	(11)
Iron ores	26	17	9	(9)	(17)	(26)
Impact on gross profit in 2012						
Iron ore concentrates	80	53	27	(27)	(53)	(80)
Preliminary concentrates	20	13	7	(7)	(13)	(20)
Iron ores	18	12	6	(6)	(12)	(18)
Impact on gross profit in the six months ended June 30, 2013						
Iron ore concentrates	50	33	17	(17)	(33)	(50)
Preliminary concentrates	19	13	6	(6)	(13)	(19)
Iron ores	15	10	5	(5)	(10)	(15)

Note:

(1) There were no sales of preliminary concentrates or iron ores in 2010.

The sensitivity range of increase or decrease by 30% has been determined with reference to historical movements in the unit cost for each of our iron ore products. The largest year-over-year increase in the unit cost during the Track Record Period was 21%, 1% and 5% for iron ore concentrates, preliminary concentrates and iron ores, respectively.

General Economic Conditions of the PRC

We derive all of our revenue from sales of iron ore products in China. Economic growth in China has a direct impact on our operations, particularly the level of demand for our products and our operating expenses. The slowdown of the PRC economy resulting from the global economic downturn in the second half of 2008 caused the prices and demand for iron ore products in China to decline significantly until the second quarter of 2009. The PRC economy has gradually recovered and market prices of iron ore concentrates have rebounded since the second quarter of 2009.

CRITICAL ACCOUNTING POLICIES

The preparation of financial information in conformity with the IFRS requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. We have identified below the accounting policies that we believe are the most critical to our financial information and that involve the most significant estimates and judgments.

Property, Plant and Equipment

We determine the residual value, useful lives and related depreciation charges for our property, plant and equipment. This estimate is based on the actual residual value and useful lives of plant and equipment of similar nature and functions.

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures, capitalized stripping costs and mining rights as well as construction in progress:

Buildings and plants	6–20 years
Machinery and equipment	3–10 years
Motor vehicles	5 years
Office equipment	3 years

Mining structures and capitalized stripping costs are depreciated based on the units-of-production method utilizing only proven and probable mineral reserves.

Mining Rights

Mining rights are stated at cost and deducted for accumulated amortization and impairment losses. The mining rights are amortized using the units-of-production method based on the proven and probable mineral reserves. Our mining rights are of significant duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with the current production schedule.

Exploration and Evaluation Assets

Exploration and evaluation assets are stated at cost and deducted for impairment losses. Exploration and evaluation assets include exploration and development costs. Exploration and development costs include expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and expenditures incurred to secure further mineralization in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is charged to profit or loss as incurred.

When it can be reasonably ascertained that a mining structure is capable of commercial production, exploration and development costs capitalized are transferred to mining rights and amortized to profit or loss using the units-of-production method based on the proved and probable mineral reserves. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets are written off to profit or loss. Intangible assets that are acquired by us, representing mining rights, which have finite useful lives, are stated at cost less accumulated amortization and impairment losses. Amortization is recognized in profit or loss on the units-of-production method utilizing only proved and probable mineral reserves.

Restoration and Environmental Costs

Restoration and environmental costs have been estimated based on our interpretation of current regulatory requirements and have been measured at the net present value of expected future cash expenditure upon reclamation and closure. As changes in estimates occur (such as mine plan revisions, changes in estimated costs or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognized at the appropriate discount rate.

Recognition of Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, at the end of each reporting period, to recover or settle the carrying amount of our assets and liabilities. Deferred tax is recognized in profit or loss.

DESCRIPTION OF SELECTED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME ITEMS

The following table sets forth information derived from our consolidated statements of comprehensive income for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(RMB in millions)				
Revenue	364.6	773.1	581.6	219.3	667.1
Cost of sales	(198.3)	(351.1)	(393.1)	(171.0)	(279.8)
Gross profit	**166.3**	**422.0**	**188.5**	**48.3**	**387.3**
Distribution costs	(7.5)	(7.4)	(1.9)	(0.5)	(3.4)
Administrative expenses	(38.4)	(103.5)	(101.6)	(47.1)	(41.5)
Profit from operations	**120.4**	**311.1**	**85.0**	**0.7**	**342.4**
Finance income	0.1	0.3	0.1	0.1	0.1
Finance costs	(3.2)	(4.1)	(7.6)	(3.0)	(7.6)
Profit/(loss) before taxation	**117.3**	**307.3**	**77.5**	**(2.2)**	**334.9**
Income tax	(30.4)	(85.3)	(22.7)	(0.8)	(84.7)
Profit/(loss) and total comprehensive income for the year	**86.9**	**222.0**	**54.8**	**(3.0)**	**250.2**
Attributable to:					
Equity shareholders of the Company	94.9	162.5	48.5	(4.8)	232.0
Non-controlling interests	(8.0)	59.5	6.3	1.8	18.2

Revenue

During the Track Record Period, we derived substantially all of our revenue from sales of iron ore products, primarily including iron ore concentrates, preliminary concentrates and iron ores recovered from consolidation and correction work in connection with the consolidation of mines we acquired. Revenue represents the sales value of goods sold to the customers exclusive of VAT of 17%.

The following table sets forth revenue contribution by product categories and percentage of total revenue for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							(unaudited)			
	(RMB in millions, except percentages)									
Revenue										
Iron ore concentrates . . .	364.2	99.9	393.1	50.8	315.2	54.2	120.2	54.8	290.0	43.5
Preliminary concentrates .	–	–	52.6	6.8	71.4	12.3	39.8	18.1	81.3	12.2
Iron ores	–	–	327.1	42.3	193.9	33.3	58.5	26.7	295.5	44.3
Others(1)	0.4	0.1	0.3	0.1	1.1	0.2	0.8	0.4	0.3	*(2)
Total	364.6	100.0	773.1	100.0	581.6	100.0	219.3	100.0	667.1	100.0

Notes:

(1) Mainly include the sales of scrap steel and consumables used in the production of iron ore products.

(2) Less than 0.1.

Our revenue increased significantly from RMB364.6 million in 2010 to RMB773.1 million in 2011, primarily as a result of our business expansion, in particular, the revenue generated from the sales of iron ores and preliminary concentrates by Jiheng Mining in 2011. Our revenue decreased from RMB773.1 million in 2011 to RMB581.6 million in 2012, primarily due to deteriorated market condition in 2012 and partly as a result of the interruption of our operations due to the flood in Hebei Province in late July 2012. The flood caused a suspension of operations and product sales for approximately five days. We resumed operations and sales of iron ore products in early August 2012. Our revenue increased from RMB219.3 million in the six months ended June 30, 2012 to RMB667.1 million in the six months ended June 30, 2013, primarily due to an increase in sales volume of our iron ore products. Our mining and processing capacities increased as our mines commenced trial or commercial production in the first half of 2013.

During the Track Record Period, we sold a substantial portion of the iron ore concentrates to Aoyu Steel at the prevailing market price. See "History, Development and Reorganization – Overview."

The table below sets forth our revenue attributable to sales of iron ore concentrates to Aoyu Steel and as a percentage of our total revenue for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
Sales of iron ore concentrates to Aoyu Steel (RMB in millions)	355.8	383.1	259.6	116.2	25.2
% of total revenue	97.6	49.6	44.6	53.0	3.8

Cost of Sales

Our cost of sales mainly include salaries to our employees, utilities expenses, materials and consumables, fees we paid to third-party contractors for their blasting, loading and transportation services and other costs associated with our mining and processing operations. In 2010, 2011, 2012 and the six months ended June 30, 2012 and 2013, our cost of sales amounted to RMB198.3 million, RMB351.1 million, RMB393.1 million, RMB171.0 million and RMB279.8 million, respectively. The increase in our cost of sales during the Track Record Period primarily reflected the expansion of the scale of consolidation and correction work at our mines.

The following table sets forth the breakdown of our cost of sales by categories for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							(unaudited)			
	(RMB in millions, except for percentages)									
Salaries[1]	16.1	8.1	22.8	6.5	29.1	7.4	13.8	8.1	19.2	6.9
Utilities[2]	29.8	15.0	34.4	9.8	35.6	9.1	13.9	8.1	27.5	9.8
Fuel[3]	9.8	4.9	12.0	3.4	13.1	3.3	5.7	3.3	7.6	2.7
Materials and consumables[4]	24.0	12.2	58.0	16.5	83.0	21.1	22.0	12.9	30.3	10.8
Contractors' fee[5]										
Blasting	26.4	13.3	52.8	15.0	56.4	14.3	28.9	16.9	38.4	13.7
Loading	29.0	14.6	52.2	14.9	42.8	10.9	26.6	15.6	31.5	11.3
Transportation	27.6	13.9	58.5	16.7	61.3	15.6	31.1	18.2	45.7	16.3
Amortization and depreciation[6]	10.9	5.5	19.1	5.4	25.8	6.6	11.4	6.7	37.2	13.3
Allowance for diminution in value of inventories[7] . . .	5.9	3.0	–	–	–	–	–	–	–	–
Others[8]	18.8	9.5	41.3	11.8	46.0	11.7	17.6	10.2	42.4	15.2
Total	198.3	100.0	351.1	100.0	393.1	100.0	171.0	100.0	279.8	100.0

Notes:

(1) Salaries primarily comprise the salaries we paid to our employees who work at our mines and processing plants.

(2) Utilities primarily comprise water and electricity costs.

(3) Fuels primarily comprise costs of the fuels used by our trucks for transporting our products to the processing plants.

(4) Materials and consumables primarily comprise tools, including drilling bits, and supplies consumed in the production processes.

(5) Contractors' fees primarily comprise fees paid to third-party suppliers. During the Track Record Period, we engaged third-party suppliers to provide various services in our production process, including blasting, loading and transportation services. See "Business – Third-party Contractors."

(6) Mining rights are amortized using the unit-of-production method based on the proven and probable mineral reserves.

(7) Allowance for diminution in value of inventories was made in 2010, which represents the write-down of our inventories to the net realizable value in the same year.

(8) Others primarily include fees and payments to the relevant government authorities in relation to our mining and processing operations, including resources tax and safety production fund. The resources tax paid by us was RMB11.2 million, RMB22.7 million, RMB32.6 million, RMB11.8 million and RMB36.0 million in 2010, 2011, 2012 and the six months ended June 30, 2012 and 2013, respectively.

If the cost of sales of our iron ore concentrates had been 21% higher/lower, (being the largest change of average unit cost of sales of our iron ore concentrates over the Track Record Period), and all other variables were held constant, our gross profit in 2010, 2011, 2012 and the six months ended June 30, 2013 would have decreased/increased by RMB40.4 million, RMB48.0 million, RMB55.8 million and RMB34.9 million, respectively.

Gross Profit and Gross Profit Margin

The following table sets forth a breakdown of our gross profit and gross profit margin for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(RMB in millions, except percentages)				
Gross Profit					
Iron ore concentrates	171.8	164.4	49.5	2.7	123.7
Preliminary concentrates	–	15.3	4.8	5.0	18.3
Iron ores	–	242.0	133.7	40.3	245.0
Others	0.4	0.3	0.5	0.3	0.3
Total	**166.3**(1)	**422.0**	**188.5**	**48.3**	**387.3**
Gross Profit Margin (%)					
Iron ore concentrates	47.2	41.8	15.7	2.2	42.7
Preliminary concentrates	–	29.1	6.7	12.6	22.5
Iron ores	–	74.0	69.0	68.9	82.9
Others	N/M(2)	N/M(2)	N/M(2)	N/M(2)	N/M(2)
Overall	**45.6**	**54.6**	**32.4**	**22.0**	**58.1**

Notes:

(1) Inclusive of an allowance for diminution in value of inventories of RMB5.9 million made in 2010, which represents the write-down of our inventories to the net realizable value in the same year.

(2) "N/M" stands for not meaningful.

Distribution Costs

Our distribution costs mainly include costs of loading and delivery of our iron ore products in connection with sales to our customers. The following table sets forth the breakdown of our distribution costs for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
			(RMB in millions)		
Loading	–	2.9	1.9	0.5	3.4
Transportation	7.5	4.5	–	–	–
Total	7.5	7.4	1.9	0.5	3.4

Prior to August 2011, we arranged transportation for sales to Aoyu Steel, which ceased to be a related party in March 2012. See "History, Development and Reorganization." Since late 2011, in line with our sales and marketing strategy, we have requested all of our customers to arrange transportation of iron ore products. As a result, we did not incur any transportation costs in 2012 and the six months ended June 30, 2013. For sales of iron ores and preliminary concentrates at Zhijiazhuang Mine, we arrange relevant loading services and bear the relevant costs. We did not incur any loading costs in 2010 because the sales of iron ores or preliminary concentrates at Zhijiazhuang Mine did not commence until 2011. The decrease in our loading costs from 2011 to 2012 was primarily due to the decrease in sales volume of iron ores from 2011 to 2012. The increase in our loading expenses from RMB0.5 million in the six months ended June 30, 2012 to RMB3.4 million in the six months ended June 30, 2013 was due to the increase in the sales volume of iron ores and preliminary concentrates.

Administrative Expenses

The following table sets forth the breakdown of our administrative expenses for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(RMB in millions)				
Staff costs[1]	15.5	18.6	31.4	12.7	15.8
Amortization and depreciation[2]	0.6	3.5	4.6	1.6	3.0
Environmental compensation expenditures[3]	4.1	21.5	22.6	9.7	1.8
Consultation fee[4]	2.4	23.1	5.7	3.0	9.1
Others[5]	15.8	36.8	37.3	20.1	11.8
Total	38.4	103.5	101.6	47.1	41.5

Notes:

(1) Staff costs primarily comprise the salaries we paid to our administrative and managerial employees.

(2) Depreciation represents depreciation expenses for office equipment calculated on a straight line basis.

(3) Environmental compensation expenditures primarily include expenses in relation to local environmental compliance regulatory requirements.

(4) Consultation fee primarily includes fees to SRK and other industry experts for compilation of the CPR and geological studies.

(5) Others primarily include traveling and transportation expenses, losses incurred due to suspension of production and donations.

The increase in our administrative expenses during the Track Record Period was primarily attributable to our business expansion.

Finance Income

Finance income primarily comprises interest income generated from deposits. In 2010, 2011, 2012 and the six months ended June 30, 2012 and 2013, our finance income amounted to RMB0.1 million, RMB0.3 million, RMB0.1 million, RMB0.1 million and RMB0.1 million, respectively.

Finance Costs

Finance costs represent (i) finance charges in relation to discounting bank acceptance bills, (ii) interest expenses on long-term payables in relation to the acquisition of mining rights by Jiheng Mining and (iii) interest expenses on accrued reclamation obligations, mainly including restoration, rehabilitation and environmental costs arising when environmental disturbance is caused by the development or ongoing production of our mines. In 2010, 2011, 2012 and the six months ended June 30, 2012 and 2013, our finance costs amounted to RMB3.2 million, RMB4.1 million, RMB7.6 million, RMB3.0 million and RMB7.6 million, respectively.

Income Tax Expenses

Income tax expenses consist of provisions for current and deferred PRC income tax expenses. We are subject to PRC enterprise income tax at a rate of 25%. Our effective tax rates in 2010, 2011, 2012 and the six months ended June 30, 2013 were 25.9%, 27.8%, 29.3% and 25.3%, respectively. Our effective tax rates were higher than the statutory PRC enterprise income tax rate of 25% during the period from 2010 to 2012 and the six months ended June 30, 2013, primarily due to losses incurred by certain non-operating subsidiaries in China that were not deductible for tax purposes for the relevant periods in accordance with the relevant PRC laws and regulations.

Pursuant to the rules and regulations of the Cayman Islands and the BVI, we are not subject to any income tax in the Cayman Islands and the BVI. We are not subject to Hong Kong profits tax as we had no assessable income arising in or derived from Hong Kong during the Track Record Period.

RESULTS OF OPERATIONS

Six months ended June 30, 2013 compared to six months ended June 30, 2012

Revenue

Our revenue increased by 204.2% from RMB219.3 million in the six months ended June 30, 2012 to RMB667.1 million in the six months ended June 30, 2013, primarily due to an increase in sales volume across all three iron ore product categories. After the completion of the consolidation work, Gufen Mine, Wang'ergou Mine and Shuanmazhuang Mine commenced trial production in May 2013 and Zhijiazhuang Mine commenced commercial production in April 2013 and contributed to an increase in the output of iron ore products. The increase in sales volume was partially offset by the decrease in average selling price of our iron ore products as a result of the adverse market conditions in the first half of 2013.

Our sales volume of iron ores increased by 472.3% from 267 Kt in the six months ended June 30, 2012 to 1,528 Kt in the six months ended June 30, 2013, primarily due to the increased mining output in the first half of 2013. Our sales volume of iron ore concentrates increased by 157.1% from 140 Kt in the six months ended June 30, 2012 to 360 Kt in the six months ended June 30, 2013, primarily due to the increased processing output in the first half of 2013 as a result of the improved utilization of our processing capacity at different plants and our business expansion. Our sales volume of preliminary concentrates increased by 127.7% from 177 Kt in the six months ended June 30, 2012 to 403 Kt in the six months ended June 30, 2013, primarily due to the increased processing output in the first half of 2013.

The average selling price per tonne of iron ores, preliminary concentrates and iron ore concentrates decreased from RMB219, RMB225, and RMB859 in the six months ended June 30, 2012 to RMB193, RMB202 and RMB806 in the six months ended June 30, 2013, respectively, primarily due to adverse market conditions.

Cost of Sales

Our cost of sales increased by 63.6% from RMB171.0 million in the six months ended June 30, 2012 to RMB279.8 million in the six months ended June 30, 2013, which was primarily due to the increase in the sales volume of our products, partially offset by the decrease in unit cash operating cost. See "– Cash Operating Costs."

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 701.9% from RMB48.3 million in the six months ended June 30, 2012 to RMB387.3 million in the six months ended June 30, 2013. Our gross profit margin increased from 22.0% in the six months ended June 30, 2012 to 58.1% in the six months ended June 30, 2013, primarily due to a decrease in our unit cash operating costs, which was partially offset by the decrease in average selling prices of iron ore products due to adverse market conditions.

Distribution Expenses

Distribution expenses increased by 580.0% from RMB0.5 million in the six months ended June 30, 2012 to RMB3.4 million in the six months ended June 30, 2013 as a result of the increase of loading expenses due to the increase in sales of our iron ores from Zhijiazhuang Mine.

Administrative Expenses

Administrative expenses decreased by 11.9% from RMB47.1 million in the six months ended June 30, 2012 to RMB41.5 million in the six months ended June 30, 2013, primarily due to the decrease in environmental compensation expenditures and the loss resulting from the disposal of obsolete facilities and partially offset by the increase in consultation fees.

Finance Income

Our finance income remained relatively stable in the six months ended June 30, 2012 and 2013.

Finance Costs

Our finance costs increased by 153.3% from RMB3.0 million in the six months ended June 30, 2012 to RMB7.6 million in the six months ended June 30, 2013, primarily due to the additional unwinding of original discount on long-term payables.

Income Tax Expenses

Income tax expenses increased from RMB0.8 million in the six months ended June 30, 2012 to RMB84.7 million in the six months ended June 30, 2013, primarily due to the increase in profit before tax.

Profit/(loss) and Total Comprehensive Income

As a result of the foregoing, we had profit and total comprehensive income of RMB250.2 million in the six months ended June 30, 2013, compared to a loss of RMB3.0 million in the six months ended June 30, 2012. Our net profit margin in the six months ended June 30, 2013 was 37.5%.

Profit/(loss) Attributable to Equity Shareholders of the Company

Profit attributable to equity shareholders of the Company amounted to RMB232.0 million in the six months ended June 30, 2013, compared to a loss of RMB4.8 million attributable to equity shareholders of the Company in the six months ended June 30, 2012. We recorded a profit attributable to non-controlling interests of RMB18.2 million in the six months ended June 30, 2013, compared to RMB1.8 million in the six months ended June 30, 2012, primarily as a result of (i) improved operational results at Jiheng Mining in the six months ended June 30, 2013 and (ii) an increase in the non-controlling interest in Jiheng Mining.

Year ended December 31, 2012 compared to year ended December 31, 2011

Revenue

Our revenue decreased by 24.8% from RMB773.1 million in 2011 to RMB581.6 million in 2012, primarily due to a decrease in the average selling price across all three iron ore product categories and partially due to a decrease in sales volume of iron ores as a result of the flood in Hebei Province in late July 2012.

The decrease in average selling price was primarily caused by the deteriorated market conditions. The average selling price per tonne of iron ores decreased from RMB214 in 2011 to RMB190 in 2012; average selling price per tonne of preliminary concentrates decreased from RMB262 in 2011 to RMB195 in 2012; average selling price per tonne of iron ore concentrates decreased from RMB1,062 in 2011 to RMB847 in 2012.

Our sales volume of iron ores decreased from 1,526 Kt in 2011 to 1,019 Kt in 2012, primarily due to the reduced output as a result of suspension of our operations caused by the flood in Hebei Province in late July 2012. Our sales volume of iron ore concentrates slightly increased from 370 Kt in 2011 to 372 Kt in 2012. Our sales volume of preliminary concentrates increased from 201 Kt in 2011 to 366 Kt in 2012 due to increased output as a result of the improved utilization rate of dry processing plants of Jiheng Mining as it completed upgrading its dry processing plant in 2011 as part of the consolidation and correction work.

Cost of Sales

Our cost of sales increased by 12.0% from RMB351.1 million in 2011 to RMB393.1 million in 2012, primarily due to (i) the increase in materials and consumables from RMB58.0 million in 2011 to RMB83.0 million in 2012, as a result of the increase in price of our key consumables such as crushing and grinding steel balls and lining board and (ii) the increase in salaries from RMB22.8 million in 2011 to RMB29.1 million in 2012 primarily because we hired more employees in line with expansion of our business operations.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 55.3% from RMB422.0 million in 2011 to RMB188.5 million in 2012. Our gross profit margin decreased from 54.6% in 2011 to 32.4% in 2012, primarily due to (i) the decrease in the average selling price across all three iron ore product categories in 2012 because of adverse market conditions in China and (ii) the increase in prices of our key consumables.

Distribution Expenses

Distribution expenses decreased by 74.3% from RMB7.4 million in 2011 to RMB1.9 million in 2012. In 2011 and 2012, our transportation costs were RMB4.5 million and nil, respectively, as we requested all of our customers to arrange their own transportation of iron ore products since late 2011, in line with our sales and marketing strategy. We arranged the transportation for sales to Aoyu Steel until late 2011. Our loading costs decreased from RMB2.9 million in 2011 to RMB1.9 million in 2012 primarily because of the decrease in sales volume of iron ores from 2011 to 2012.

Administrative Expenses

Administrative expenses decreased by 1.8% from RMB103.5 million in 2011 to RMB101.6 million in 2012, primarily due to a RMB17.4 million decrease in consultation fees from RMB23.1 million in 2011 to RMB5.7 million in 2012, representing the payment to SRK for compilation of the CPR, offset by an increase in staff costs as we hired more employees to support our business expansion.

Finance Income

Our finance income decreased by 66.7% from RMB0.3 million in 2011 to RMB0.1 million in 2012.

Finance Costs

Our finance costs increased by 85.4% from RMB4.1 million in 2011 to RMB7.6 million in 2012, primarily because we incurred RMB4.8 million in interest expenses on long-term payables in relation to relevant mining rights acquired by Jiheng Mining in 2012, which was partially offset by a decrease of RMB1.4 million in interest on discounting bank acceptance bills in 2012 because we have discontinued accepting bills receivable to settle payment for our iron ore products since 2012 to improve our working capital management.

Income Tax Expenses

Income tax expenses decreased by 73.4% from RMB85.3 million in 2011 to RMB22.7 million in 2012, primarily due to the decrease in profit before tax in 2012.

Profit and Total Comprehensive Income

As a result of the foregoing, our profit and total comprehensive income decreased by 75.3% from RMB222.0 million in 2011 to RMB54.8 million in 2012. Our net profit margin decreased from 28.7% in 2011 to 9.4% in 2012, largely in line with the decrease in the gross profit margin and the increase in finance costs during the same period.

Profit Attributable to Equity Shareholders of the Company

Profit attributable to equity shareholders of the Company amounted to RMB48.5 million in 2012, compared to RMB162.5 million in 2011. We recorded a profit attributable to non-controlling interests of RMB6.3 million in 2012, compared to RMB59.5 million in 2011, as a result of (i) declining operational performance at Jiheng Mining and (ii) a decrease in the non-controlling interest in Jiheng Mining.

Year ended December 31, 2011 compared to the year ended December 31, 2010

Revenue

Our revenue increased by 112.0% from RMB364.6 million in 2010 to RMB773.1 million in 2011, primarily due to the increase in sales of iron ores and preliminary concentrates as Jiheng Mining commenced sales in 2011. We did not sell preliminary concentrates or iron ores in 2010. The increase in our revenue in 2011 was also attributed to the increase in the sales of iron ore concentrates from RMB364.2 million in 2010 to RMB393.1 million in 2011, primarily due to the increase in sales price of our iron ore concentrates as a result of the economic recovery in China in 2011. The sales volume of our iron ore concentrates slightly decreased from 377 Kt in 2010 to 370 Kt in 2011.

Cost of Sales

Our cost of sales increased by 77.1% from RMB198.3 million in 2010 to RMB351.1 million in 2011, primarily due to costs associated with sales of preliminary concentrates and iron ores from Jiheng Mining.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 153.8% from RMB166.3 million in 2010 to RMB422.0 million in 2011. Our gross profit margin increased from 45.6% in 2010 to 54.6% in 2011 primarily because we commenced selling iron ores in 2011 which had a higher gross profit margin than iron ore concentrates in these periods.

Distribution Expenses

Distribution expenses slightly decreased by 1.3% from RMB7.5 million in 2010 to RMB7.4 million in 2011.

Administrative Expenses

Administrative expenses increased by 169.5% from RMB38.4 million in 2010 to RMB103.5 million in 2011, primarily due to the RMB17.4 million increase in environmental compensation expenditures in 2011 associated with the commencement of sales at Jiheng Mining in that year, the RMB20.7 million increase in consultation fees which represented the payment to SRK and other industry experts for compilation of the CPR and other geological reports and the RMB3.1 million increase in staff costs as we hired more staff in line with our business expansion.

Finance Income

Our finance income increased by 200.0% from RMB0.1 million in 2010 to RMB0.3 million in 2011.

Finance Costs

Our finance costs increased by 28.1% from RMB3.2 million in 2010 to RMB4.1 million in 2011, primarily due to the increase in interest expenses on accrued reclamation obligations as a result of the commencement of sales at Zhijiazhuang Mine.

Income Tax Expenses

Income tax expenses increased by 180.6% from RMB30.4 million in 2010 to RMB85.3 million in 2011, primarily due to the increase in profit before tax in 2011.

Profit and Total Comprehensive Income

As a result of the foregoing, our profit and total comprehensive income increased by 155.5% from RMB86.9 million in 2010 to RMB222.0 million in 2011. Our net profit margin increased from 23.8% in 2010 to 28.7% in 2011, largely in line with the increase of the gross profit margin in the same periods.

Profit Attributable to Equity Shareholders of the Company

Profit attributable to equity shareholders of the Company amounted to RMB162.5 million in 2011, compared to RMB94.9 million in 2010. We recorded a profit attributable to non-controlling interests of RMB59.5 million in 2011, compared to a loss attributable to non-controlling interests of RMB8.0 million in 2010, primarily as a result of improved operational performance at Jiheng Mining, offset by a decrease in the non-controlling interest in Jiheng Mining during the corresponding period.

ANALYSIS ON CERTAIN BALANCE SHEET LINE ITEMS

Inventories

Our inventories consist of finished iron ore products, consumables and supplies such as crushing and grinding steel balls and weakly mineralized wall rocks which were primarily used in dry processing operations. The following table sets forth our balances of inventory as of the dates indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB in millions)			
Consumables and supplies	7.9	10.5	12.6	17.3
Weakly mineralized wall rocks	9.9	57.7	116.9	71.3
Iron ores	9.6	2.1	1.5	4.5
Preliminary concentrates	14.0	2.6	4.1	17.1
Iron ore concentrates	0.7	33.4	25.0	11.9
Subtotal	**42.1**	**106.3**	**160.1**	**122.1**
Less: Allowance for diminution in value of inventories[1]	(5.9)	–	–	–
	36.2	106.3	160.1	122.1

Note:

(1) Historically, our production costs were relatively high due to the early stage of our business and an allowance for the diminution in value of inventories of RMB5.9 million was made in 2010 with reference to the selling prices in the same year.

Our inventories increased from RMB42.1 million as of December 31, 2010 to RMB106.3 million as of December 31, 2011 and further to RMB160.1 million as of December 31, 2012 primarily due to the increase in weakly mineralized wall rocks, which increased from RMB9.9 million in 2010 to RMB57.7 million in 2011 and further to RMB116.9 million in 2012. Our inventories decreased to RMB122.1 million as of June 30, 2013, primarily due to the decrease in the amount of weakly mineralized wall rocks.

During the Track Record Period, we did not sell any weakly mineralized wall rocks. We process them into preliminary concentrates. Costs for processing weakly mineralized wall rocks into preliminary concentrates include carrying costs of weakly mineralized wall rocks, the cost of conversion and an appropriate portion of fixed and variable overhead costs. Preliminary concentrates can be further processed into iron ore concentrates.

Historically, our dry processing capacity of Jiheng Mining remained at around 1.2 Mtpa throughout 2011 and 2012; processing capacity has been increased to 3.7 Mtpa with the completion of the Jiheng Mining's new dry processing plant since January 2013. During the Track Record Period, movements of weakly mineralized wall rocks are set out below.

	Year ended December 31,			Six months ended June 30,
	2010	2011	2012	2013
	(RMB in millions)			
Balance at the beginning of the year/period	–	9.9	57.7	116.9
Production	19.9	78.8	115.4	26.7
Consumption	(10.0)	(31.0)	(56.2)	(72.3)
Balance at the end of the year/period	9.9	57.7	116.9	71.3

With the completion of the new dry processing capacity at Jiheng Mining, we have processed more weakly mineralized wall rocks since January 2013.

The following table sets forth our average inventory turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2010	2011	2012	2013
Average inventory turnover days[(1)]	36	74	124	92

Note:

(1) The average inventory turnover days for a given period is the average of opening and closing inventory balances divided by the cost of sales for that period and multiplied by 365 days for a year or 182.5 days for six months.

Our average inventory turnover days increased from 36 days in 2010 to 74 days in 2011 and to 124 days in 2012, primarily because our dry processing capacity was not sufficient to process the volume of weakly mineralized wall rocks we recovered through our consolidation and correction work in connection with the mines we acquired. As a result, a substantial amount of weakly mineralized wall rocks was added to our inventory before we could process them into preliminary concentrates. Our average inventory turnover days decreased to 92 days in the six months ended June 30, 2013 from 124 days in 2012, primarily due to the improved sales of our iron ore products and our improved processing capacity which allowed us to process more weakly mineralized wall rocks into preliminary concentrates. Under our expansion plan, by the end of 2015, our mining capacity is expected to reach 21.4 Mtpa, and our dry processing capacity is expected to reach 27.6 Mtpa. Our dry processing capacity following this expansion will not only meet the demand for dry processing of iron ores and steadily reduced mineralized wall rocks to be recovered according to our mining plan, but will also leave room for further expansion of our mining capacity. Therefore, our Directors believe that our Group's dry processing capacity will be sufficient for our Group's development following the expansion and believe that along with the expansion of our dry processing capacity, weakly mineralized wall rocks will be processed at a faster pace and the inventory turnover days are expected to decrease in the future. See "Business – Production Expansion Plans."

The management reviews the carrying amount and calculates the net realizable value of the inventories (the estimated selling price in the ordinary course of business deducted by the estimated costs of completion necessary to make the sale) from time to time. In the event the carrying amount is more than the net realizable value, the management will write down the carrying amount of the inventories to the net realizable value. The write-down amount, namely, the allowance for diminution in value of inventories, was RMB5.9 million in 2010. As of December 31, 2011 and 2012 and June 30, 2013, the net realizable values of our inventories were higher than their carrying amounts and as a result, no provision was required at the respective dates.

The following table sets out the value of the inventories as of June 30, 2013 and the subsequent sale or usage (in percentage) as of September 30, 2013.

	As of June 30, 2013	**As of September 30, 2013**
	(RMB in millions)	***(%)***
Consumables	17.3	100.0
Weakly mineralized wall rocks	71.3	46.2
Iron ores	4.5	100.0
Preliminary concentrates	17.1	100.0
Iron ore concentrates	11.9	100.0
Total	122.1	68.6

Trade and Other Receivables (inclusive of amounts due from related parties – trade nature)

The following table sets forth the breakdown of our trade and other receivables (inclusive of amounts due from related parties – trade nature) as of the dates indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB in millions)			
Accounts receivable	–	32.4	12.2	33.5
Bills receivable	99.0	–	–	–
Trade receivables	**99.0**	**32.4**	**12.2**	**33.5**
Prepayments and deposits	1.8	10.8	15.0	24.6
Income tax recoverable	–	4.0	8.6	1.1
VAT recoverable	1.6	–	2.6	–
Others	11.4	0.8	1.0	0.8
Other receivables	**14.8**	**15.6**	**27.2**	**26.5**
Amounts due from related parties – Trade nature	50.7	5.5	–	–
Total trade and other receivables	**164.5**	**53.5**	**39.4**	**60.0**

Our trade receivables increased by 174.6% from RMB12.2 million as of December 31, 2012 to RMB33.5 million as of June 30, 2013, primarily due to the increased sales in the first half of 2013. Our trade receivables decreased from RMB32.4 million as of December 31, 2011 to RMB12.2 million as of December 31, 2012, primarily because we improved collection of trade receivables from our customers since 2011, which was in line with our sales and marketing strategy. We have not accepted bills since 2011. Our other receivables increased from RMB14.8 million as of December 31, 2010 to RMB15.6 million as of December 31, 2011 and to RMB27.2 million as of December 31, 2012, primarily due to the increase in our prepayments and deposits as a result of our increased purchase of materials, which was in line with our business expansion. Our amounts due from related parties of trade nature decreased from RMB50.7 million as of December 31, 2010 to RMB5.5 million as of December 31, 2011, primarily due to improved collection of trade receivables from Aoyu Steel. We used to grant a credit period to Aoyu Steel, which was a related party prior to March 2012. As of December 31, 2012, we had no amount due from related parties of trade nature.

Our prepayments and deposits increased by 500.0% from RMB1.8 million as of December 31, 2010 to RMB10.8 million as of December 31, 2011 and further to RMB15.0 million as of December 31, 2012, primarily due to our increased purchasing of materials for our consolidation and correction work, which was in line with our expansion during the Track Record Period. Our prepayments and deposits further increased to RMB24.6 million as of June 30, 2013, primarily due to our increased purchase of materials for our consolidation and correction work, which was in line with our expansion, and the increase in the consultation fees in relation to the Listing.

From time to time, we review our trade and other receivables on their nature and the collectability on a case-by-case basis, to determine whether it is necessary to make provision for impairment of certain long overdue trade receivables and ensure the quality of our assets. Our management will consider various evidence to determine the collectability of trade receivables, including probability of insolvency or significant financial difficulties of the debtor. During the Track Record Period, we did not make any provision for our trade and other receivables.

We generally request our customers to make full payment before delivery. From time to time, we may grant a credit period of up to 90 days to customers that have good track records with us.

The table below sets forth an ageing analysis of trade receivables (inclusive of amounts due from related parties – trade nature) based on the due date as of each date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB in millions)			
Current	–	–	–	19.2
Within 3 months	69.7	24.6	12.2	14.3
Over 3 months but less than 6 months	30.0	7.7	–	–
Over 6 months but less than 1 year	50.0	5.6	–	–
Total	149.7	37.9	12.2	33.5

The following table sets forth our average trade receivables (inclusive of amounts due from related parties – trade nature) turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2010	2011	2012	2013
Average trade receivables (inclusive of amounts due from related parties – trade nature) turnover days[1] . . .	80	44	16	6

Note:

(1) The average trade receivables (inclusive of amounts due from related parties – trade nature) turnover day for a given period is the average of opening and closing trade receivables (inclusive of amounts due from related parties – trade nature) balances divided by revenue for that period and multiplied by 365 days for a year or 182.5 days for six months.

Our average trade receivables (inclusive of amounts due from related parties – trade nature) turnover days decreased from 80 days in 2010 to 44 days in 2011, 16 days in 2012 and further to six days in the six months ended June 30, 2013, primarily because we improved the collection of trade and bill receivables.

The following table sets out the value of the trade receivables as of June 30, 2013 and the subsequent settlement of trade receivables (in percentage) as of September 30, 2013.

	As of June 30, 2013	As of September 30, 2013
	(RMB in millions)	*(%)*
Trade receivables	33.5	100.0

Trade and Other Payables (exclusive of amounts due to related parties)

The following table sets forth the breakdown of our trade and other payables as of the dates indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB in millions)			
Trade Payables	36.5	41.4	58.9	78.1
Receipt in advance	–	25.7	36.1	12.2
Payables for purchase of equipment	0.2	17.9	88.6	77.1
Other taxes payables	13.3	22.0	6.6	24.8
Others[1]	34.8	64.1	47.6	26.3
Total	84.8	171.1	237.8	218.5

Note:

(1) Others mainly comprise (i) accrued expenses, (ii) payables for staff related costs and (iii) other deposits.

Our trade payables mainly consist of payables in respect of purchases of supplies and services from third-party contractors in relation to our mining and processing operations. Our trade payables increased from RMB36.5 million as of December 31, 2010 to RMB41.4 million as of December 31, 2011 and further to RMB58.9 million as of December 31, 2012 and RMB78.1 million as of June 30, 2013, primarily due to expansion of our business operations.

Receipt in advance represents prepayment made by our customers for our iron ore products. Our receipt in advance was nil, RMB25.7 million and RMB36.1 million as of December 31, 2010, 2011 and 2012, respectively, as we started requesting our customers to make full payment before delivery of goods since 2011. Our receipt in advance decreased from RMB36.1 million as of December 31, 2012 to RMB12.2 million as of June 30, 2013 primarily due to the fulfillment of a large number of purchase orders by June 30, 2013.

Payables for purchase of equipment increased from RMB0.2 million as of December 31, 2010 to RMB17.9 million as of December 31, 2011 and further to RMB88.6 million as of December 31, 2012, primarily due to our increased purchase of equipment used for mining and processing capacity expansion of Jingyuancheng Mining. Payables for purchase of equipment decreased to RMB77.1 million as of June 30, 2013, primarily due to the settlement of relevant payables due by June 30, 2013.

Other taxes payables represent value added tax and other taxes associated with our transactions of iron ore products and equipment used in mining and processing operations.

The following table sets forth our average trade payables turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2010	2011	2012	2013
Average trade payables turnover days(1)	56	40	47	45

Note:

(1) The average trade payables turnover days for a given period is the average of the opening and closing trade payables balances divided by cost of sales for that period and multiplied by 365 days for a year or 182.5 days for six months.

Our average trade payables turnover days decreased from 56 days in 2010 to 40 days in 2011, increased from 40 days in 2011 to 47 days in 2012, and slightly decreased to 45 days in the six months ended June 30, 2013, and were generally in line with our liquidity management practice.

Transaction with Related Parties

The table below sets forth details of our amounts due from and due to related parties as of the dates indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB in millions)			
Amounts due from related parties				
– Trade nature(1) (5)	50.7	5.5	–	–
– Non-trade nature(2) (5)	–	0.7	0.4	0.3
Total	50.7	6.2	0.4	0.3
Amounts due to:				
– Aowei Group (3)	(86.0)	(225.2)	(483.5)	(298.5)
– Other related parties (4)	(13.7)	(32.4)	(0.1)	(3.5)
Total	(99.7)	(257.6)	(483.6)	(302.0)

Notes:

(1) Primarily included amounts due from Aoyu Steel in relation to our sales of iron ore concentrates to it. The sales were carried out at comparable or prevailing market prices, whichever was applicable.

(2) Primarily included amounts due from Aoyu Steel in relation to our disposal of property and equipment.

(3) Primarily included advances we obtained from Aowei Group in relation to our business expansion. See "Relationship with Controlling Shareholders."

(4) Primarily consisted of expenditure relating to equipment provided by Xinrui Mining, which we used for mining operations. The amount of RMB3.5 million as of June 30, 2013 due to other related parties was the payment by Hengshi Holdings on behalf of us in relation to the consultation fee for the Listing.

(5) Aoyu Steel ceased to be our related party in March 2012. See "History, Development and Reorganization."

Amounts due from and to related parties were unsecured, interest-free and expected to be repaid on demand. All amounts due from and to related parties have been fully settled.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we funded our operations through a combination of Shareholders' equity and cash generated from our operations. We primarily used funds on the acquisition of mines, purchasing of mining and processing equipment, and our daily operations.

Several factors which are beyond our control, including fluctuations in the market prices of our products, may adversely impact our cash flows from operations and may require us to seek additional sources of funds, including bank borrowings.

The table below sets forth the breakdown of our current assets and current liabilities as of each of the dates indicated.

	As of December 31,			As of June 30,	As of September 30,
	2010	2011	2012	2013	2013
			(RMB in millions)		
CURRENT ASSETS					
Inventories	36.2	106.3	160.1	122.1	75.3
Trade and other receivables	113.8	48.0	39.4	60.0	90.7
Amounts due from related parties	50.7	6.2	0.4	0.3	0.4
Cash and cash equivalents	23.6	41.8	22.7	67.1	89.7
	224.3	202.3	222.6	249.5	256.0
CURRENT LIABILITIES					
Short-term borrowings	49.0	–	–	11.6	40.0
Trade and other payables	84.8	171.1	237.8	218.5	232.1
Amounts due to related parties	99.7	257.6	483.6	302.0	4.5
Current taxation	15.1	16.3	2.2	14.0	6.9
Current portion of long-term payables	–	–	21.0	21.6	51.0
Accrued reclamation obligations	–	–	3.0	4.3	4.8
	248.6	445.0	747.6	572.0	339.3
Net current (liabilities)	(24.3)	(242.7)	(525.0)	(322.5)	(83.3)

We incurred net current liabilities during the Track Record Period primarily due to (i) an increase in amounts due to Aowei Group and (ii) an increase in trade and other payables as we increased the purchase of facilities, equipment and supplies used in our mining and processing operations, which were both in line with our business expansion.

We adopted the following measures in response to the increase in our capital expenditures in consideration of our net current liabilities during the Track Record Period.

- In June and July 2013, we obtained and drew down two banking facilities of RMB101.6 million and RMB98.4 million, respectively, from China Construction Bank Corporation Rongcheng Sub-branch. In September 2013, we borrowed three entrusted loans from (i) Hebei Jinhai Industry Group Co., Ltd. (河北津海實業集團有限公司), as an entrustor lender and China Construction Bank Corporation Baoding Branch, as the entrustee lender; (ii) Baoding Aosen Clothing Making Co., Ltd. (保定澳森製衣有限公司), as an entrustor lender and China CITIC Bank Co., Ltd. Shijiazhuang Branch, as the entrustee lender; and (iii) Hebei Fuye Property Development Co., Ltd. (河北福業房地產開發有限公司), as an entrustor lender and China Construction Bank Corporation Baoding Branch, as the entrustee lender, respectively, with an aggregate amount of RMB190.0 million. All of the entrustor lenders are Independent Third Parties. See "– Indebtedness."

- Without regard to cash advances from Aowei Group, we would have had net cash used in operating activities in 2010. However, in 2011, 2012 and the six months ended June 30, 2013, we had net cash generated from operating activities (exclusive of the cash advances from and repayment to Aowei Group) of RMB399.3 million, RMB19.0 million and RMB309.5 million, respectively. As we steadily increase our mining and processing capacity, we expect our net cash from operating activities to remain positive in 2013 to support our business development.

As of the Indebtedness Date, we had total long-term and short-term borrowings of RMB390.0 million and our total banking facilities available amounted to RMB220.0 million, among which RMB200.0 million was utilized.

Taking into account the financial resources available to us, including cash flow from operations, bank facilities, cash and cash equivalents, and the estimated net proceeds of the Global Offering, our Directors are of the opinion that we have sufficient working capital for at least 125% of our working capital needs for the next 12 months from the date of this Prospectus.

CONSOLIDATED CASH FLOW STATEMENTS

The following table sets forth selected cash flow data for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
			(RMB in millions)		
Net cash generated from operating activities	35.0	538.4	277.3	197.5	124.5
Net cash used in investing activities	(111.6)	(276.6)	(216.4)	(130.3)	(181.5)
Net cash generated from/(used in) financing activities	97.8	(243.6)	(80.0)	(80.0)	101.4
Net increase/(decrease) in cash and cash equivalents	21.2	18.2	(19.1)	(12.8)	44.4
Cash and cash equivalents at beginning of year/ period	2.4	23.6	41.8	41.8	22.7
Effect of foreign exchange rate changes	–	*	–	–	–
Cash and cash equivalents at end of year/period	23.6	41.8	22.7	29.0	67.1

* Less than 0.1

Net Cash Generated from Operating Activities

Net cash generated from operating activities in the six months ended June 30, 2013 was RMB124.5 million, which was primarily attributable to our operating cash inflow before movement in working capital of RMB380.9 million, as adjusted by a decrease in trade and other payables (inclusive of the amounts due to related parties) of RMB190.5 million primarily due to our payment to Aowei Group and an increase in trade and other receivables (inclusive of the amounts due from related parties) of RMB38.1 million primarily due to our increased sales in line with our expansion. The effect was partially offset by a decrease in inventories of RMB38.0 million primarily due to improved sales of iron ore products and increased use of weakly mineralized wall rocks as raw material for preliminary concentrates as a result of our improved processing capacity.

Net cash generated from operating activities in the six months ended June 30, 2012 was RMB197.5 million, which was primarily attributable to an increase in trade and other payables and amounts due to related parties of RMB263.1 million, partially offset by the increase in inventories of RMB16.9 million and an increase in trade and other receivables and amounts due from related parties of RMB37.5 million.

Net cash generated from operating activities in 2012 was RMB277.3 million, which was primarily attributable to our operating cash inflow before movement in working capital of RMB132.6 million, as adjusted by an increase in inventories of RMB53.8 million primarily due to the increase in the amount of weakly mineralized wall rocks we stockpiled for processing later as we increased our consolidation and correction work in 2012. This was partially offset by an increase in trade and other payables (inclusive of amounts due to related parties) of RMB227.5 million primarily due to an increase in amounts due to Aowei Group in line with our business expansion.

Net cash generated from operating activities in 2011 was RMB538.4 million, which was primarily attributable to our operating cash inflow before movement in working capital of RMB353.4 million, as adjusted by an increase in inventories of RMB70.1 million primarily due to the increase of iron ores and weakly mineralized wall rocks recovered from the consolidation and correction work at Zhijiazhuang Mine in 2011, and a decrease in trade and other receivables (inclusive of amounts due from related parties) of RMB96.7 million as we improved payment collection, the effect of which was partially offset by an increase in trade and other payables (inclusive of amounts due to related parties) of RMB243.1 million, out of which RMB139.2 million were amounts due to Aowei Group.

Net cash generated from operating activities in 2010 was RMB35.0 million, which was primarily attributable to our operating cash inflow before movement in working capital of approximately RMB142.8 million, as adjusted by (i) the increase in trade and other receivable (inclusive of amounts due from related parties) of RMB139.7 million primarily due to our increased sales of iron ore concentrates to Aoyu Steel and (ii) the increase in inventories of RMB39.3 million resulting from the weakly mineralized wall rocks recovered at Zhijiazhuang Mine but not yet sold, the effect of which was partially offset by the increase in trade and other payables (inclusive of the amounts due to related parties) of RMB90.9 million mainly due to amounts due to Aowei Group in line with our business expansion.

Net Cash Used in Investing Activities

Net cash used in investing activities in the six months ended June 30, 2013 was RMB181.5 million, primarily including (i) RMB110.2 million for purchase of property, plant and equipment; (ii) RMB55.9 million for purchase of mining rights of Gufen Mine, Wang'ergou Mine and Shuanmazhuang Mine; and (iii) lease prepayment of RMB15.5 million in relation to the leasing agreements for the land used in our operations.

Net cash used in investing activities in the six months ended June 30, 2012 was RMB130.3 million, primarily including (i) RMB81.8 million for purchase of property, plant and equipment; (ii) RMB35.6 million for acquisition of intangible assets; and (iii) lease prepayments of RMB13.0 million.

Net cash used in investing activities in 2012 was RMB216.4 million, primarily including (i) payment for the purchases of property, plant and equipment of RMB149.6 million, which we used primarily for purchasing equipment used in our operations, (ii) payment for acquisition of intangible assets of RMB35.6 million primarily used in the acquisition of mining rights and (iii) lease prepayments of RMB33.3 million in relation to the leasing agreement for the land used in our operations.

Net cash used in investing activities in 2011 was RMB276.6 million, primarily including (i) RMB139.8 million for purchase of equipment used in our operations and (ii) lease prepayments of RMB102.5 million in relation to the leasing arrangement for the land used in our operations.

Net cash used in investing activities in 2010 was RMB111.6 million, primarily including (i) RMB42.1 million for the acquisition of mining rights; (ii) RMB38.5 million for purchase of equipment used in our operations and (iii) lease prepayments of RMB32.9 million for the leasing arrangement for the land used in our operations.

Net Cash Generated from/(Used in) Financing Activities

Net cash generated from financing activities in the six months ended June 30, 2013 was RMB101.4 million, comprising proceeds from bank borrowings of RMB101.6 million we used for funding our working capital, which was offset by interest payment of RMB0.2 million in relation to our bank borrowings.

Net cash used in financing activities in the six months ended June 30, 2012 and in the year of 2012 consisted of the same RMB80.0 million of payment for acquisition of a 20% equity interest in Jiheng Mining as a part of our reorganization. See "History, Development and Reorganization."

Net cash used in financing activities in 2011 was RMB243.6 million, primarily including (i) payment for the purchase of investments of RMB212.3 million in relation to Xinxin Mining, Jingyuancheng Mining and Jiheng Mining in relation to the Reorganization; (ii) dividends paid in the amount of RMB93.0 million; (iii) the settlement of short-term borrowings of RMB79.0 million in relation to discounting bank acceptance bills in 2010 and 2011; and (iv) payment for the acquisition of non-controlling interests of RMB38.4 million in relation to our acquisition of equity interests in Jiheng Mining. The amount was partially offset by proceeds from discounting bank acceptance bills of RMB30.0 million as well as funds received of RMB150.6 million from Hengshi Holdings.

Net cash generated from financing activities in 2010 was RMB97.8 million, comprising proceeds from discounting bank acceptance bills of RMB49.0 million and contribution from equity shareholders of the Company and non-controlling interests of RMB25.0 million each.

Capital Expenditures

Capital expenditures are expenditures made for the acquisition or upgrade of property, plant and equipment, intangible assets and prepaid lease payments. The following table sets forth our capital expenditures during the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2010	2011	2012	2013
	(RMB in millions)			
Acquisition of intangible assets	42.1	43.8	142.3	223.2
Infrastructure construction				
Buildings and plants	7.9	6.7	1.2	2.0
Machinery and equipment	32.0	16.2	14.0	7.1
Construction in progress	4.5	116.1	189.0	85.0
Acquisition of land use rights	32.9	102.5	33.3	15.5
Acquisition of other property, plant and equipment	16.4	8.6	7.1	2.6
Total capital expenditures	135.8	293.9	386.9	335.4

We plan to make capital expenditures for the development of mines in two stages. The total investment proposed in stage one (open-pit mining) is RMB1,952.8 million, exclusive of loan interest, covering the slope correction and processing and tailings storage facility renovation. For the investment in stage one, RMB961.8 million was invested before June 30, 2013, and RMB991.0 million is expected to be invested from July 1, 2013 to the end of 2015. Of the capital expenditures projected for the period from July 1, 2013 to the end of 2015, approximately RMB625.5 million is expected to be funded by the net proceeds of the Global Offering and the remaining amount is expected to be funded by the cash generated from our operating activities. Details of the investments by our operating subsidiaries from July 1, 2013 to the end of 2015 are shown in the following table.

	Investment for the periods indicated			
	2H 2013	2014	2015	Subtotal
	(RMB in millions)			
Xinxin Mining	64.3	73.6	85.3	223.2
Jingyuancheng Mining	138.4	170.5	196.8	505.7
Jiheng Mining	48.9	146.5	66.7	262.1
Total	251.6	390.6	348.8	991.0

Of the estimated capital expenditures to be invested from July 1, 2013 to the end of 2015, (i) RMB467.1 million will be used for several major projects listed below (which are expected to be mainly funded with the net proceeds of the Global Offering) and (ii) RMB173.0 million will be used to pay mining right fees and premium. The following table sets forth our estimated capital expenditures for such major projects.

Type of the Project	Estimated Capital Expenditures	Amount Allocated from the Net Proceeds of the Global Offering	Estimated Payments		
	(2H 2013–2015)		2H 2013	2014	2015
		(RMB in millions)			
Mining capacity expansion (Xinxin Mining)	113.27	94.06	30.22	46.49	36.56
Mining capacity expansion (Jingyuancheng Mining)	137.08	116.24	32.63	50.88	53.57
Mining capacity expansion (Jiheng Mining)	18.21	10.75	13.81	4.40	–
Wet processing plant and tailings dam (Jiheng Mining)	98.85	98.85	–	98.85	–
Dry processing plant (Jingyuancheng Mining)	51.95	51.95	–	51.95	–
Wet processing plant and tailings dam (Jingyuancheng Mining)	47.69	47.69	3.00	4.00	40.69
Total	**467.05**	**419.54**	**79.66**	**256.57**	**130.82**

The total investment proposed for stage two (underground mining) from 2022 to 2025 is RMB739.0 million, covering the new underground mining facilities and equipment. The detailed information is shown in the following table. In SRK's opinion, the proposed capital investments for both stages are reasonable.

Type of the Project	Xinxin Mining	Jingyuancheng Mining	Subtotal
		(RMB in millions)	
Main shaft, auxiliary shaft, air shaft and ramp engineering	46.9	46.9	93.9
Roadway engineering	85.6	179.9	265.5
Underground mining, tunneling, haulage equipment and installation	76.7	115.0	191.6
Mechanical engineering	19.4	19.4	38.8
Underground electric and installation	18.5	18.5	36.9
Construction engineering	5.8	5.8	11.5
Mining right	53.5	47.3	100.7
Total	306.3	432.7	739.0

INDEBTEDNESS

Bank Borrowings

Below is a summary of our outstanding bank borrowings as of December 31, 2010, 2011 and 2012, June 30, 2013 and September 30, 2013, respectively.

	As of December 31,			As of June 30,	As of September 30,
	2010	2011	2012	2013	2013
			(RMB in millions)		
Discounted bank acceptance bills with recourse	49.0	–	–	–	–
Bank loans – secured					
– Current portion	–	–	–	11.6	40.0
– Non-current portion	–	–	–	90.0	160.0
Entrusted bank loans – unsecured					
– Non-current portion	–	–	–	–	190.0
	49.0	–	–	101.6	390.0

Set forth below are details of our outstanding bank borrowings:

- In June 2013, we entered into a loan agreement with China Construction Bank Corporation Rongcheng Sub-branch for the amount of RMB101.6 million with a term of two years after drawdown. For the first year, this loan carries an annual interest rate of 6.15%, being the benchmark interest rate set by the PBOC as of June 8, 2013. For the remaining term, the annual interest rate will be the benchmark interest rate set by the PBOC as of June 8, 2014. The loan is secured by the mining rights held by Jiheng Mining. We utilized this loan for our working capital needs.

- In July 2013, we entered into a loan agreement with China Construction Bank Corporation Rongcheng Sub-branch for the amount of RMB98.4 million with a term of two years. For the first year after drawdown, this loan carries an annual interest rate of 6.15%, being the benchmark interest rate set by the PBOC as of July 11, 2013. For the remaining term, the annual interest rate will be the benchmark interest rate set by the PBOC as of July 11, 2014. The loan is secured by the mining rights held by Jiheng Mining. We utilized this loan for our working capital needs.

- In September 2013, we borrowed and drew down three entrusted loans from (i) Hebei Jinhai Industry Group Co., Ltd. (河北津海實業集團有限公司), as an entrustor lender and China Construction Bank Corporation Baoding Branch, as the entrustee lender; (ii) Baoding Aosen Clothing Making Co., Ltd. (保定澳森製衣有限公司), as an entrustor lender and China CITIC Bank Co., Ltd. Shijiazhuang Branch, as the entrustee lender; and (iii) Hebei Fuye Property Development Co., Ltd. (河北福業房地產開發有限公司), as an entrustor lender and China Construction Bank Corporation Baoding Branch, as the entrustee lender, respectively, with an aggregate amount of RMB190.0 million. Each of the three entrusted loans has a term of two years and carries an annual interest rate of 6.15%. We utilize these loans for discharging our remaining indebtedness owed to Aowei Group. In connection with obtaining a bank loan, we may use the mining permit as the collateral only if we have obtained the corresponding safety production permit and the waste discharge permit for the same mine. As we have already used the mining permit for Zhijiazhuang Mine as the collateral for the bank loans from China Construction Bank Corporation Rongcheng Sub-branch and we have not obtained the waste discharge permits for our other three mines as of the Latest Practicable Date, we obtained additional borrowings from Independent Third Parties other than banks by way of entrusted loans. Our PRC legal counsel, Commerce & Finance Law Offices, is of the view that the entrusted loan agreements do not violate PRC laws and regulations.

Other Borrowings

Our other short-term borrowings of RMB49.0 million as of December 31, 2010 represented the discounted bank acceptance bills with recourse. Other than this, we did not have such other borrowings as of December 31, 2011 and 2012, June 30, 2013 and September 30, 2013.

As of the Indebtedness Date, we had total long-term and short-term borrowings of RMB390.0 million and our total banking facilities available amounted to RMB220.0 million, among which RMB200.0 million was utilized. In respect of unutilized facilities available to us as of the Indebtedness Date, no additional collateral or security was required for any draw down of such facilities.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that they were not aware of any breach of any of the covenants contained in our banking and other loan facilities constituting default nor were they aware of any restrictions that would limit our ability to draw down on our unutilized facilities.

COMMITMENTS AND CONTINGENT LIABILITIES

Capital Commitments

The table below sets forth a breakdown of our capital commitments as of the dates indicated.

	As of December 31,			As of June 30,	As of September 30,
	2010	2011	2012	2013	2013
			(RMB in millions)		
Capital commitments					
– contracted for	–	57.3	12.0	–	–
– authorized but not contracted for	–	3.8	*	608.5	565.8
Total capital commitments	–	61.1	12.0	608.5	565.8

* less than 0.1

The total capital commitments of RMB608.5 million as of June 30, 2013, which represented the committed portion (namely, those approved by the board or relevant authorized person or entity) of our planned capital expenditures of RMB991.0 million between July 1, 2013 and 2015, mainly included RMB268.6 million for stripping engineering, RMB245.0 million for the construction of processing plants and tailings dams, and RMB94.9 million for other projects.

Operating Lease Commitments

The table below sets forth our payables under non-cancellable operating leases in respect of land and properties as of the dates indicated.

	As of December 31,			As of June 30,	As of September 30,
	2010	2011	2012	2013	2013
			(RMB in millions)		
Within 1 year	–	–	0.4	0.4	0.4
After 1 year but within 5 years	–	1.4	1.3	1.0	0.8
Total operating lease commitments	–	1.4	1.7	1.4	1.2

CASH OPERATING COSTS

Historical Cash Operating Costs for Open-pit Operation

The table below sets forth historical unit cash operating costs of our iron products for the periods indicated.

Items	Xinxin Mining				Jingyuancheng Mining				Jiheng Mining								
	Iron ore concentrates (RMB/t)				Iron ore concentrates (RMB/t)				Preliminary concentrates (RMB/t)				Iron ores (RMB/t)				Iron ore concentrates (RMB/t)
	2010	2011	2012	Six months ended June 30, 2013	2010	2011	2012	Six months ended June 30, 2013	2010	2011	2012	Six months ended June 30, 2013	2010	2011	2012	Six months ended June 30, 2013	Six months ended June 30, 2013
Mining (Unit Raw Ore)	10.85	15.57	19.17	12.14	7.44	11.37	13.91	10.31	90.45	43.10	42.19	15.25	90.45	43.10	42.19	15.25	15.25
Dry Processing (Unit Pre-concentrate)	18.40	23.68	24.12	13.35	18.50	25.19	24.67	19.23	36.16	14.90	13.42	17.10	–	–	–	–	17.10
Wet Processing (Unit Concentrate)	113.40	116.12	114.96	116.09	120.50	148.49	140.27	96.72	–	–	–	–	–	–	–	–	190.39
Off-site administration (Unit Concentrate)	40.77	75.43	88.28	51.41	57.38	118.74	84.14	60.86	142.59	57.19	56.25	9.16	37.25	19.50	17.54	3.05	24.59
Product marketing and sale (Unit Ore/Preliminary Concentrate/Concentrate)	18.33	11.08	0.08	0.03	21.80	12.78	–	–	–	–	2.58	3.71	–	–	0.81	1.24	–
Non-income taxes, royalties and other governmental charges (Unit Concentrate)	53.56	55.53	56.12	37.77	43.85	43.59	47.57	37.15	–	13.62	14.36	15.10	–	8.98	10.37	11.43	38.76
Unit Cash Operating Costs	**520.37**	**653.42**	**706.53**	**398.01**	**485.85**	**691.54**	**685.85**	**436.51**	**525.01**	**212.86**	**222.04**	**90.89**	**127.70**	**71.58**	**70.91**	**30.97**	**422.58**

From 2010 to 2012, we focused on performing consolidation and correction work in connection with the consolidation of our mines and preparing them for commercial production. Both the volume and the average TFe grade of iron ores removed and recovered during the consolidation and correction work were low compared with those of iron ores produced during our commercial production. As a result, the unit cash operating costs of our iron ore products from 2010 to 2012 were high compared to those during trial or commercial production. See "Business – Mines, Mineral Resources and Mining Rights – Consolidation and Correction Work at Our Mines." In line with our expansion plan, we intend to increase our mining and processing capacity and carry out technical upgrades at our mines to focus on iron ore concentrates production and we expect to complete our expansion work by the end of 2015. As a result, our historical results of unit costs of iron ore products are not indicative of the results that may be expected for any future period.

According to the CPR, with the commencement of commercial production, the completion of the technological upgrade, and continued increase in production volume in accordance with our production plan, our cash operating costs are expected to decrease substantially. According to the CPR, the average feed TFe grades of the iron ores or weakly mineralized wall rocks recovered from our four mines and processed by dry processing plants in each year from 2010 to 2012 were all below 10%, while under the designed production plan, the average TFe grade of extracted ores is expected to be 12.83%, 13.50% and 27.11% for Xinxin Mining, Jingyuancheng Mining and Jiheng Mining, respectively, in 2014. Along with the increases of the output and the TFe grade of iron ores extracted in our mines and the increase of utilization rates of processing plants, the unit cost for mining, the unit processing cost and unit off-site administration cost decreased significantly in the first half of 2013. As a result, the cash operating costs of iron ore concentrates for Xinxin Mining and Jingyuancheng Mining in the six months ended June 30, 2013 had decreased to RMB398.01 per tonne and RMB436.51 per tonne, respectively, moving towards the level forecasted for 2014. The cash operating costs of iron ore concentrates for Jiheng Mining were RMB422.58 per tonne in the six months ended June 30, 2013. See Tables 7–1, 8–12 and 11–5 to 11–11 of the CPR attached as Appendix IV to this Prospectus.

Forecast on Cash Operating Costs for Open-Pit Operation

The following table sets forth the forecast of the cash operating costs of iron ore concentrates for our mines from 2013 to 2017, respectively. As we commenced trial or commercial production and benefiting from the favorable geological and mining conditions of our mines as well as high mFe contents and recovery rates of Zhijiazhuang Mine, our estimated cash operating costs for iron ore concentrates production are expected to be among the lowest in the industry in China. See "Business – Our Competitive Strengths."

	Xinxin Mining					Jingyuancheng Mining					Jiheng Mining				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
								(RMB/t)							
Mining (Unit Ore)	12.54	12.84	12.84	16.84	16.84	10.60	10.68	10.68	14.75	14.75	15.45	23.97	23.97	23.97	23.97
Dry Processing (Unit Pre-concentrate)	16.58	24.71	29.64	29.74	29.74	18.54	19.23	25.86	23.86	23.86	18.46	11.18	11.17	11.68	11.68
Wet Processing (Unit Concentrate)	112.98	84.33	70.64	70.96	70.96	95.86	73.13	61.36	64.08	64.08	187.27	30.94	30.94	31.74	31.74
Off-site administration (Unit Concentrate)	69.57	27.10	27.09	27.12	27.12	49.47	27.15	27.04	27.06	27.06	26.25	26.23	26.24	26.24	26.24
Product marketing and sale (Unit Concentrate)	0.02	1.72	1.72	1.70	1.70	–	1.72	1.71	1.71	1.71	–	1.63	1.62	1.62	1.62
Non-income taxes, royalties and other governmental charges (Unit Concentrate)	38.27	45.60	46.02	45.08	45.08	37.06	38.81	38.79	38.45	38.45	40.84	17.75	17.87	17.46	17.46
Unit Cash Operating Costs	**435.41**	**402.16**	**389.31**	**437.37**(1)	**437.37**	**405.57**	**345.39**	**341.94**	**388.28**(1)	**388.28**	**457.49**	**154.93**(2)	**155.03**	**156.24**	**156.24**

Notes:

(1) According to SRK, the unit cash operating costs of Xinxin Mining and Jingyuancheng Mining are forecasted to increase in 2016, primarily due to an increase in forecasted stripping ratios as a result of the expansion of the areas to be mined after the ramp-up period and the specific occurrence of orebodies of these mines.

(2) The iron ore concentrates of Jiheng Mining are expected to be processed primarily from high TFe grade iron ores in 2014, as compared to low TFe grade weakly mineralized wall rocks in 2013. Therefore, the unit cash operating costs in 2014 is expected to decrease substantially.

See Tables 11–12 to 11–14 of the CPR attached as Appendix IV to this Prospectus.

DISCLOSURE UNDER RULE 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Our Directors confirmed that as of the Latest Practicable Date, there was no circumstance which would give rise to a disclosure requirement under Rule 13.13 to 13.19 of the Hong Kong Listing Rules.

OFF-BALANCE SHEET ARRANGEMENT

As of the Latest Practicable Date, we did not have any off-balance sheet arrangements.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the period or as of the date indicated.

	Year ended/As of December 31,			Six months ended/As of June 30,
	2010	2011	2012	2013
	(%)			
Return on equity[1]	66.1	123.3	34.9	62.6
Return on total assets[2]	19.2	32.7	5.2	18.1
Current ratio[3]	90.2	45.5	29.8	43.6
Quick ratio[4]	75.7	21.6	8.4	22.3

Notes:

(1) Return on equity for each of the years of 2010, 2011 and 2012 is calculated by dividing profit and total comprehensive income attributable to equity shareholders of the Company for the year by total equity attributable to equity shareholders of the Company at the year end, expressed as a percentage. Return on equity for the six months ended June 30, 2013 is calculated by dividing profit and total comprehensive income attributable to equity shareholders of the Company in the six months ended June 30, 2013 by total equity attributable to equity shareholders of the Company as of June 30, 2013 and is, therefore, not comparable to the return on equity ratios for the years of 2010, 2011 and 2012.

(2) Return on total assets for each of the years of 2010, 2011 and 2012 is calculated by dividing profit and total comprehensive income for the year by total assets at the year end, expressed as a percentage. Return on total assets for the six months ended June 30, 2013 is calculated by dividing profit and total comprehensive income in the six months ended June 30, 2013 by total assets as of June 30, 2013 and is, therefore, not comparable to the return on total assets ratios for the years of 2010, 2011 and 2012.

(3) Current ratio is calculated by dividing current assets by current liabilities at the period end, and expressed as a percentage.

(4) Quick ratio is calculated by deducting inventories from current assets, and then dividing by current liabilities at the period end, and expressed as a percentage.

Return on Equity

Return on equity was 66.1%, 123.3% and 34.9% in 2010, 2011 and 2012, respectively. The movement in this ratio in the last three years largely corresponded to the changes in the profit and total comprehensive income attributable to equity shareholders of the Company during the same period, considering the balance of total equity attributable to equity shareholders of the Company at year end of the three years remained relatively flat. Return on equity in the six months ended June 30, 2013 was 62.6%, primarily as a result of an increase in profit and comprehensive income attributable to equity shareholders of the Company for the same period.

Return on Total Assets

Return on total assets increased from 19.2% in 2010 to 32.7% in 2011, as a result of an increase in profit and comprehensive income from RMB86.9 million to RMB222.0 million during the same period, partially offset by an increase in total assets from RMB451.8 million as of December 31, 2010 to RMB679.2 million as of December 31, 2011. The increase in total assets was primarily attributable to the additions to property, plant and equipment and construction in progress, as well as to lease prepayments and intangible assets in 2011. The addition to property, plant and equipment and construction in progress was related to processing plant, mining related machinery, and equipment and mining structure. The addition to intangible assets was primarily due to mining rights obtained by Jingyuancheng Mining from Laiyuan County Guangyuan Mining Co., Ltd. and Baoding Longmao Mining Co., Ltd.

Return on total assets decreased from 32.7% in 2011 to 5.2% in 2012. While the total assets further increased from RMB679.2 million as of December 31, 2011 to RMB1,046.2 million as of December 31, 2012, primarily due to an increase in property, plant and equipment, and intangible assets (mining rights obtained by Jiheng Mining in relation to Zhijiazhuang Mine, and the premium paid by Jingyuancheng Mining in relation to obtaining the mining rights from Weihe Mining and Xinda Mining) during the period, the profit and comprehensive income declined from RMB222.0 million in 2011 to RMB54.8 million in 2012.

Return on total assets was 18.1% in the six months ended June 30, 2013, primarily as a result of an increase in profit and comprehensive income for the same period.

Current Ratio

Current ratio decreased from 90.2% as of December 31, 2010 to 45.5% as of December 31, 2011, and further decreased to 29.8% as of December 31, 2012. Current assets remained relatively flat across these periods. The change in current ratio during these periods largely corresponded to the increase in the current liabilities during the same periods, which was primarily due to an increase in both (i) trade and other payables; and (ii) amounts due to related parties. Current ratio increased from 29.8% as of December 31, 2012 to 43.6% as of June 30, 2013, primarily as a result of a decrease in current liabilities as a significant portion of the amounts due to related parties was settled in the six months ended June 30, 2013.

Quick Ratio

The movement in the quick ratio during the Track Record Period largely corresponded to that of the current ratio for the same reasons as explained above.

MARKET RISK DISCLOSURE

We are exposed to various types of market risks in the ordinary course of our business, including, but not limited to, the following:

Liquidity Risk

We monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows. Our management monitors the utilization of bank borrowings and ensures compliance with loan covenants. We had net current liabilities as of June 30, 2013, which exposed us to liquidity risk. In order to mitigate the liquidity risk, our management regularly monitors our operating cash flow to meet our liquidity requirements in the short and long term.

Credit Risk

Our credit risk is primarily attributable to cash at bank, trade and other receivables. All of cash at bank is deposited in reputable banks assessed by the management to have no significant credit risk. Our exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than by the industry or country in which the customers operate. In respect of trade and other receivables, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. We also review the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

In line with our sales and marketing strategy, we generally request our customers to make full payment before delivery. From time to time, we may grant a credit period of up to 90 days to customers that have a good track record with us. As a result, our Directors considers our exposure to credit risk is low. See "– Analysis on Certain Balance Sheet Line Items – Trade and Other Receivables (inclusive of amounts due from related parties – trade nature)."

However, during the Track Record Period, we used to grant Aoyu Steel, formerly a related party, a longer credit period. As of December 31, 2010, 2011 and 2012 and June 30, 2013, 100%, 96%, 100% and 79% of trade receivables (inclusive of amounts due from related parties of trade nature) was due from our five largest customers, respectively. In 2010, 2011, 2012 and the six months ended June 30, 2013, sales to Aoyu Steel represented approximately 97.6%, 49.6%, 44.6% and 3.8% of our total revenue. Aoyu Steel ceased to be a related party in 2012 and we had no outstanding trade receivables from Aoyu Steel as of December 31, 2012.

DIVIDEND POLICY

Subject to the relevant laws and the Articles of Association, we, through a general meeting, may declare dividends in any currency but no dividend shall be declared in excess of the amount recommended by our Board. The Board may declare interim and special dividend after taking into account our operations, earnings, financial position, cash requirements and other factors as it may deem relevant at such time. Our Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Companies Law.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. The PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries in the PRC may also be restricted if they incur debts or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries in the PRC may enter into in the future.

The amount of dividend eventually declared and distributed to our Shareholders will also depend upon our earnings and financial performance, operating requirements, then capital commitments and requirements and other conditions that our Directors may deem relevant or appropriate. We had total equity of RMB160.7 million, RMB189.5 million, RMB164.3 million and 414.6 million as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively.

We paid dividends of RMB93.0 million in 2011.

PROPERTY INTERESTS AND PROPERTY VALUATION

Savills Valuation and Professional Services Limited, an independent property valuer, has valued the property interests of our Group as of September 30, 2013. The texts of the letter, summary of values and valuation certificates issued by Savills Valuation and Professional Services Limited are included in Appendix III attached to this Prospectus.

The following table sets forth the reconciliation of the net carrying value of our Group's property interest as of June 30, 2013 with the valuation of such interests as of September 30, 2013 as stated in Appendix III to this Prospectus.

	(RMB in millions)
Net carrying value as of June 30, 2013(1)(3)	380.7
Movements during the three months ended September 30, 2013	
– Addition (unaudited)	4.2
– Depreciation (unaudited)	(5.8)
Net carrying value as of September 30, 2013 (unaudited)	379.1
Valuation as of September 30, 2013 as per Appendix III to this Prospectus	65.4(2)
Valuation difference(3)	313.7

Notes:

(1) Net carrying value consisted of approximately RMB218.0 million of buildings and RMB162.7 million of prepaid lease payments as of June 30, 2013.

(2) This is the aggregate market value of four parcels of land and fifteen buildings that were held for owner-occupation by us. See Appendix III to this Prospectus.

(3) Buildings and prepaid lease payments include a total of RMB316.9 million without title certificate by our Group as of September 30, 2013, to which Savills Valuation and Professional Services Limited has attributed no commercial value, net of a revaluation surplus of approximately RMB3.2 million in relation to certain of the Group's property interests with commercial value.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS/(LIABILITIES)

The following unaudited pro forma statement of adjusted net tangible assets/(liabilities) prepared in accordance with Rule 4.29 of the Listing Rules is set forth below to illustrate the effect of the Global Offering on our consolidated net tangible assets/(liabilities) attributable to equity shareholders of the Company as of June 30, 2013 as if the Global Offering had taken place on that date. The unaudited pro forma statement of adjusted net tangible assets/(liabilities) of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of June 30, 2013 or at any future date.

	Consolidated net tangible assets/(liabilities) attributable to equity shareholders of the Company as of June 30, 2013(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted net tangible assets/(liabilities) attributable to equity shareholders of the Company	Unaudited pro forma adjusted net tangible assets/(liabilities) per Share(3)	Unaudited pro forma adjusted net tangible assets/(liabilities) per Share(4)
		(RMB in thousands)		*(RMB)*	*(HK$)*
Based on the Offer Price of HK$3.10 per Share	(44,336)	858,579	814,243	0.54	0.68
Based on the Offer Price of HK$3.40 per Share	(44,336)	944,500	900,164	0.60	0.76

Notes:

(1) The consolidated net tangible assets/(liabilities) attributable to equity shareholders of the Company as of June 30, 2013 is extracted from the financial information included in the Accountants' Report in Appendix I to this prospectus, which is based on consolidated net assets attributable to equity shareholders of the Company as of June 30, 2013 of RMB370.7 million with an adjustment for intangible assets attributable to equity shareholders of the Company as of June 30, 2013 of RMB415.0 million.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$3.10 or HK$3.40 per Share, being the low or high end of the stated offer price range, after deduction of the underwriting fees and other related expenses payable by our Group and take no account of any Share which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted to RMB at the PBOC rate of RMB0.79151 to HK$1.00.

(3) The unaudited pro forma adjusted consolidated net tangible assets/(liabilities) per Share is arrived at on the basis that 1,500,000,000 Shares (including the Shares in issue as of June 30, 2013, and Shares that may be issued under the Global Offering) are in issue without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option.

(4) The unaudited pro forma adjusted net tangible assets/(liabilities) per Share in RMB is converted to Hong Kong dollars at the PBOC rate of RMB0.79151 to HK$1.00.

(5) Our Group's property interests as of September 30, 2013 have been valued by Savills Valuation and Professional Services Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix III–Valuation Report. The above unaudited pro forma statement of adjusted consolidated net tangible assets/(liabilities) does not take into account the surplus arising from the revaluation of certain of our Group's property interests with commercial value amounting to approximately RMB3.2 million. The revaluation surplus has not been recorded in the Financial Information as set out in Appendix I to this Prospectus and will not be recorded in the consolidated financial statements of our Group for the year ending December 31, 2013 as our Group's property, plant and equipment and lease prepayments are stated at cost deducted for accumulated depreciation or amortization and impairment losses, if any. If the valuation surplus was recorded in our Group's financial statements, additional annual depreciation and amortization of approximately RMB0.1 million would be charged against the profit for the year ending December 31, 2013.

(6) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to June 30, 2013.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm there has been no material adverse change in our financial or trading position or prospects since June 30, 2013, being the date of our latest audited financial results as set out in the Accountants' Report attached as Appendix I to this Prospectus.

LISTING EXPENSES

The total amount of listing expenses, commissions together with SFC transaction levy and Hong Kong Stock Exchange trading fee that will be borne by us in connection with the Global Offering is estimated to be approximately RMB71.0 million (based on the mid-point of our indicative price range for the Global Offering), of which approximately RMB49.6 million is expected to be capitalized after the Listing. The remaining amount of approximately RMB21.4 million fees and expenses were charged to our income statement, of which approximately RMB7.9 million were charged in the six months ended June 30, 2013.